

**CONNECTICUT
ASSOCIATION
of NONPROFITS**

*...to serve, strengthen
and support Connecticut's
nonprofit community.*

Testimony to the Public Health Committee

February 21, 2007

In Support of House Bill #6088: An Act Concerning a Dedicated Alcohol Tax to Fund Substance Abuse Treatment Programs and

House Bill #5631: An Act Concerning State Spending on Community Mental Health Services

By Nora Duncan, Public Policy Specialist

February 21, 2007

Good Afternoon honored members of the Public Health Committee. My name is Nora Duncan and I am the Public Policy Specialist for CT Association of Nonprofits. CT Nonprofits represents nearly 500 nonprofit organizations in CT, nearly 300 of which are state-funded. Many of those are Department of Mental Health and Addiction Services (DMHAS) funded to provide treatment of addiction and mental illness around CT

I am here today in support of Bill #6088 and Bill #5631.

House Bill #6088: An Act Concerning a Dedicated Alcohol Tax to Fund Substance Abuse Treatment Programs

This bill provides a DEDICATED increase in the tax on alcohol with the revenues benefiting treatment providers directly. I would like to focus the attention on a beer tax, specifically. Beer is the biggest source of alcohol sales by far (87% of alcohol beverage sales nation-wide) and the 29 cent per gallon tax on it has not been increased since 1989 and ranks 29th among the 50 states.

In this bill, the revenue from an increased tax would be dedicated to existing addiction treatment providers in the DMHAS system that, for the most part, have seen no rate increases since the inception of the SAGA Behavioral Health Program almost 9 years ago. On average, rates cover approximately 70% of the cost of care. With no rate increases and no inflationary increases at all in the Governor's budget, a dedicated alcohol tax is good step toward giving nonprofit providers of critical addiction treatment services the rate increases they so desperately need.

There are two major reasons that it makes sense to support an increased dedicated tax on beer:

- 1) Financial support for existing providers, and
- 2) Increased public health via reduced under-age drinking (higher beer taxes correspond to lower underage drinking)

With only 3 minutes to testify, I will focus on the financial reasons and leave the public health issues, namely reducing underage drinking, to the prevention professionals here today. Some of my attached documents reflect the public health issues.

CT sells approximately 58 million gallons of beer per year (sources: Adams Beverage Group Beer Handbook 2005; Center for Science in the Public Interest). For some perspective: there is just over a half gallon of beer in a 6 pack, 2.25 gallons of beer in a case, and 15.5 gallons of beer in a keg. If CT added 5 cents additional tax per gallon, CT could raise approximately \$2.9 million dollars in revenue to dedicate to addiction providers. That would raise the tax to 34 cents per gallon – recalling that this would be the first increase since 1989 – and only cost the consumer about **2.5 cents extra per 6 pack of beer.**

Who would even notice this small of an increase? Who can say that this is overly burdensome to the "average Joe"? Who can say it is more burdensome than the price to be paid by us all if addiction treatment providers close their doors and those in need of treatment find themselves in the Emergency Room or the Department of Correction instead of a treatment slot?

For some further clarification, beer consumption in America averages to about 30 gallons of beer per person (legal drinking age.) We all know that this is not how it really breaks down, but let's pretend it does. That means the "average Joe" in CT will pay an additional \$1.50 per year in taxes. No rational person can tell me this will cause a plummet in legal beer sales in this state.

Your challenge is to move this bill out of committee and fight for a very unpopular policy among CT lawmakers, but not so unpopular among CT voters...a **DEDICATED** tax. Voter polling shows favor for increased taxes that directly go to health and human services programs survey (Center for Science in the Public Interest, American Medical Association and JoinTogether.org). Consider increasing the tax to 10 cents per gallon for a bigger impact. When making your decisions, please think about the public health impact, both in the reduction of underage drinking and in the positive impact you will have on the fiscal picture for nonprofit treatment providers in our state. Thank you for your support.

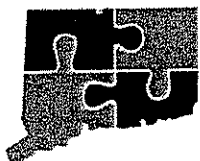
House Bill #5631: An Act Concerning State Spending on Community Mental Health Services

Without this bill, it is not possible to move forward with a successful mental health Medicaid Rehab Option (MRO). This bill provides for the following critical needs:

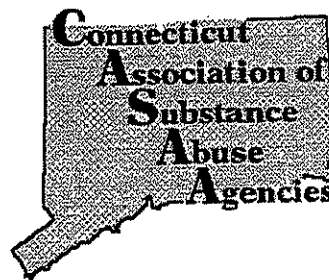
1. Rates for community mental health services covered under the MRO through a cost-based methodology which provides for annual cost of living increases.
2. The same appropriations for DMHAS community mental health services in future fiscal years as there is in this fiscal year, including annual COLA adjustments.
3. Dollars to protect the capacity of DMHAS providers to serve their communities while transitioning to MRO services.
4. Coverage to protect providers serving Medicaid Spend-down clients.
5. Coverage for non-Medicaid services that are essential to sustaining healthy, community based living arrangements for the DMHAS population.
6. Support for initiatives and services that prevent hospitalization and institutionalization of the DMHAS population.

As you know, the Governor's budget offers no relief for rates or addiction treatment program costs at all (Bill #6088) or provides for a successful MRO. Please support these bills and the addiction and mental health treatment providers of this state so that we can continue to work for the public good, providing treatment in lieu of more costly incarceration, hospitalization and institutionalization.

Thank you for your work on these challenging matters. I am available to answer questions you may have.



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2007 Legislative/Public Policy Priorities for DMHAS Behavioral Health Care Providers

A number of public policy issues that benefit nonprofits will appear on the CT Association of Nonprofits 2007 Public Policy Agenda.

The nonprofit behavioral health care provider community believes that adequate funding for providers is extraordinarily important due to the correlation between funding and staffing levels, and the resulting availability and quality of care. The following items focus on revenue enhancement as a good business practices to ensure that the partnership between the State of Connecticut and the nonprofit community-based provider sector can survive and a crisis in the provision of quality services can be avoided.

Support Alcohol Tax Increases for Support of Substance Abuse Prevention and Treatment

CT has a substance use/abuse problem that is significant and needs attention. The National Survey on Drug Use and Health (NSDUH)¹ for 2003-2004 shows CT in the top 5th of the country for highest rate of alcohol use in the past month among all age groups, at 60% across the age groups, with an alarming 74% of 18-25 year olds reporting alcohol use in the past month. Compared to a national average of 22%, 25% of CT residents in total and 48% of 18-25 year olds reported binge drinking in the last month. CT ranked 5th among all the states in illicit drug dependence or abuse in the past year for 18-25 year olds, at just over 10%.

JoinTogether.org², a respected national advocacy group formed in 1991 to support community-based efforts to advance effective alcohol and drug policy, with support of the Robert Wood Johnson Foundation, released a report in 2006 that called for states to "consider raising alcohol excise taxes, especially on beer, earmarking the revenues for prevention, treatment and recovery programs if they need additional money." A recent survey of residential treatment providers by the CT Association of Nonprofits showed that the average per diem SAGA rate for care covers about 70% of actual costs and that in the last 5 years energy costs are up nearly 70% and employee health insurance costs are up nearly 45%, while the benefits have often been reduced. Some SAGA Behavioral Health Program rates have not been increased since inception 9 years ago. The need for additional money is clear.

CT ranks 29th among the 50 states in beer taxes at 19 cents/gallon. The national average is 26 cents/gallon. The last increase in the beer tax was in 1989.

Research shows that higher "sin" taxes reduce consumption and enhance public health and safety. JoinTogether.org reports that "The five states with the highest beer taxes have significantly lower rates of teen binge drinking than the states with the lowest taxes" and polls across the country, including one by the American Medical Association in 2004, show that voters are in favor of state alcohol excise taxes that support alcohol abuse prevention and treatment. In a national poll released in December of 2004 by the Center for Science in the Public Interest³, 79% of respondents (68% of Republicans, 70% of drinkers and 87% of Democrats) prefer raising alcohol taxes to cutting social programs as a means to offsetting budget shortfalls.

CT's treatment and prevention system would benefit from a new alcohol tax that directly results in increased rates for a struggling nonprofit treatment provider community and increased capacity. This will help ensure that quality services can continue to be available for all who need them.

¹ <http://oas.samhsa.gov/2k4/State/AppB.htm>

² <http://www.jointogether.org/keyissues/taxes/>

³ <http://www.cspinet.org/new/200512071.html>

Enact Community Investment and Fair Rate Methodologies for the Medicaid Rehabilitation Option and Changes in the Medicaid Spend Down Threshold

Every major CT study on the mental health system in the last 7 years has concluded that the lack of housing and community based services for individuals with mental illness has resulted in increased incarceration, increased nursing home and emergency room admissions and increased reliance on homeless shelters. As CT moves forward with the second phase of the Medicaid Rehabilitation Option (MRO) in the mental health treatment system, 4 core recommendations from those same studies, plus 2 provider recommendations, must be enacted to provide for adequate housing and community-based services:

- **Maximize Medicaid to generate federal funds for services currently paid for by 100% state funds.**
- **Dedicate this new revenue to strengthen the mental health system and expand access to housing.**
 - *Provider Recommendation:* Retention of DMHAS grant funds for the transition to MRO services, non-medical services and uninsured/under-insured clients.
- **Redirect funds from inappropriate institutionalization to housing and community services.**
- **Establish grants and rates that cover the reasonable costs of services.**
 - *Provider Recommendation:* Approval of final provider rate methodologies by an oversight council such as the Community Mental Health Strategy Board, as was done with the CT Behavioral Health Partnership.

A separate, but important need for both providers and Medicaid recipients is to raise the income limit for Medicaid. Our state Medicaid program has run substantial surpluses for the past three years, yet the income limit for Medicaid recipients (between \$476 and \$575/month, region dependent) has not been increased since 1990. As a result, thousands of vulnerable people with very limited resources must incur enough medical bills in a six month period to "spend down" to qualify for Medicaid. The opposite side of the coin is that while these bills incur, MRO providers risk not getting paid by Medicaid recipients for provided services that Medicaid and the State do not cover. More permanent financial risk is looming if rates are set and grants are reduced without consideration for this issue. Spend Down is a complex, restrictive, and administratively burdensome program. Medicare Part D has compounded the problem by making it even harder to qualify for Medicaid. **Raising the Medicaid income limit, so that fewer people have a spend down, will help both Medicaid recipients and MRO service providers.**

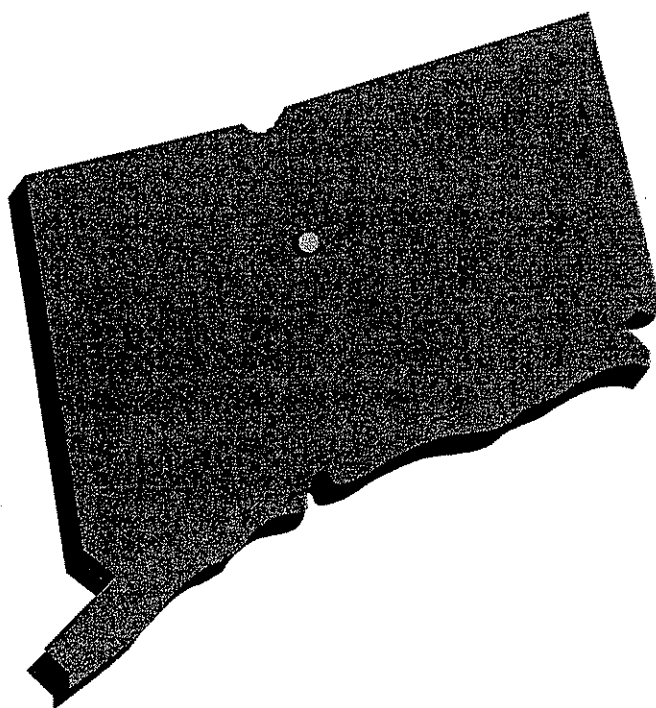
Develop Rate Negotiation Mechanisms in the Fee-For-Service Behavioral Health Care System

While efforts have been made to address the historical under-funding of nonprofit community-based providers in CT, adequate progress has not been made. One particular problem is that fee-for-service provider rate increases/negotiation mechanisms have not been addressed.

- Nearly \$75 million of the DMHAS budget is from the SAGA behavioral health carve-out, known as the General Assistance Behavioral Health Program (GABHP.) This is a fee-for-service payment system separate from grants. Nonprofit treatment providers are unable to negotiate GABHP rates with DMHAS and COLA does not apply to rates across the board.
- Many Medicaid recipients are served by nonprofit treatment providers. This is a fee-for-service payment system through DSS. Providers are unable to negotiate Medicaid rates with DSS and COLA does not apply to this account.
- Mental Health Group Homes have moved from grant funding, which received COLA when grant funded, to fee-for-service under the Medicaid Rehab Option. ACT Teams and Case Management services (known as Community Support Programs) are moving to the same system. COLA does not apply

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Alcohol Excise Taxes in Connecticut: A Case for an Increase



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March 2004

Budget Deficits and Alcohol Excise Taxes in Connecticut

Entering fiscal year 2005, Connecticut faces a revenue shortfall of up to \$84.8 million.¹ In response, the state government has cut education funding, raised tuition mid-year for state universities, and laid off state workers. The state faces continued decreases in revenues, and the deficit will likely grow. By law, since Connecticut must maintain a balanced budget, it must cut services, increase revenues, or both. Raising alcohol excise taxes, last done in 1989, provides one rational, politically popular means of providing needed new state revenues.

In his state of the State address, Governor John Rowland (R) proposed increasing alcohol taxes by 10 percent to help close the state's budget gap. In addition to providing an estimated \$2.0 million in FY 2003-2004 and \$4.4 million in FY 2004-2005 in revenue,² raising alcohol taxes may help reduce rates of alcohol-related problems, particularly among underage drinkers. Public opinion polls show that a strong majority support raising alcohol taxes, especially when the money is earmarked for alcohol prevention and treatment programs.

This report compares Governor Rowland's proposal to several other alcohol-tax increase options. Regardless of the amount of increase, revenues raised would inevitably lower the state's budget deficit or provide funds for state prevention programs and/or other public services. In the interest of simplicity, this analysis does not consider all wines. It considers only still wines from large wineries, since the state of Connecticut imposes different excise tax rates on still wines from small wineries and on sparkling wines. We do not include them.

Higher Alcohol Taxes Would Increase Prices and Reduce Alcohol Problems

Research from the National Institute on Alcohol Abuse and Alcoholism (NIAAA) reports that increasing beer taxes effectively reduces alcohol problems.³ Evidence is so strong on this matter that the National Academy of Sciences recently recommended that states increase alcohol taxes as one key approach to reduce underage drinking.⁴

Many studies have demonstrated other beneficial consequences of increasing alcoholic-beverage taxes, especially on beer:

- Higher beer taxes would likely lead to higher prices⁵ and reductions in the quantity and frequency of drinking among youth,⁶ who are among the most price-sensitive consumers.
- Higher beer taxes would reduce traffic-crash fatality rates, especially among young drivers,⁷ and result in fewer cases of some types of crime.⁸
- For every ten percent increase in the beer excise tax, the probability of severe violence towards children decreases by 2.3 percent.⁹
- According to researchers at the U.S. Centers for Disease Control and Prevention, a beer-tax increase of \$0.20 per six-pack would reduce gonorrhea rates by 8.9 percent and syphilis rates by 32.7 percent.¹⁰

Public Opinion, Public Costs

Sixty-nine percent of Connecticut residents support a ten percent increase in the alcohol tax.¹¹ In a national survey, 82 percent of adults favored an increase of five cents per drink in the tax on beer, wine, or liquor to pay for programs to prevent minors from drinking and to increase the availability of alcohol treatment programs.¹² In

surveys on alcohol excise taxes conducted in several states, results have consistently shown that between 76 and 80 percent of respondents either believe that increasing alcohol taxes is "good" or "acceptable,"¹³ or support an increase in state alcohol excise taxes.¹⁴

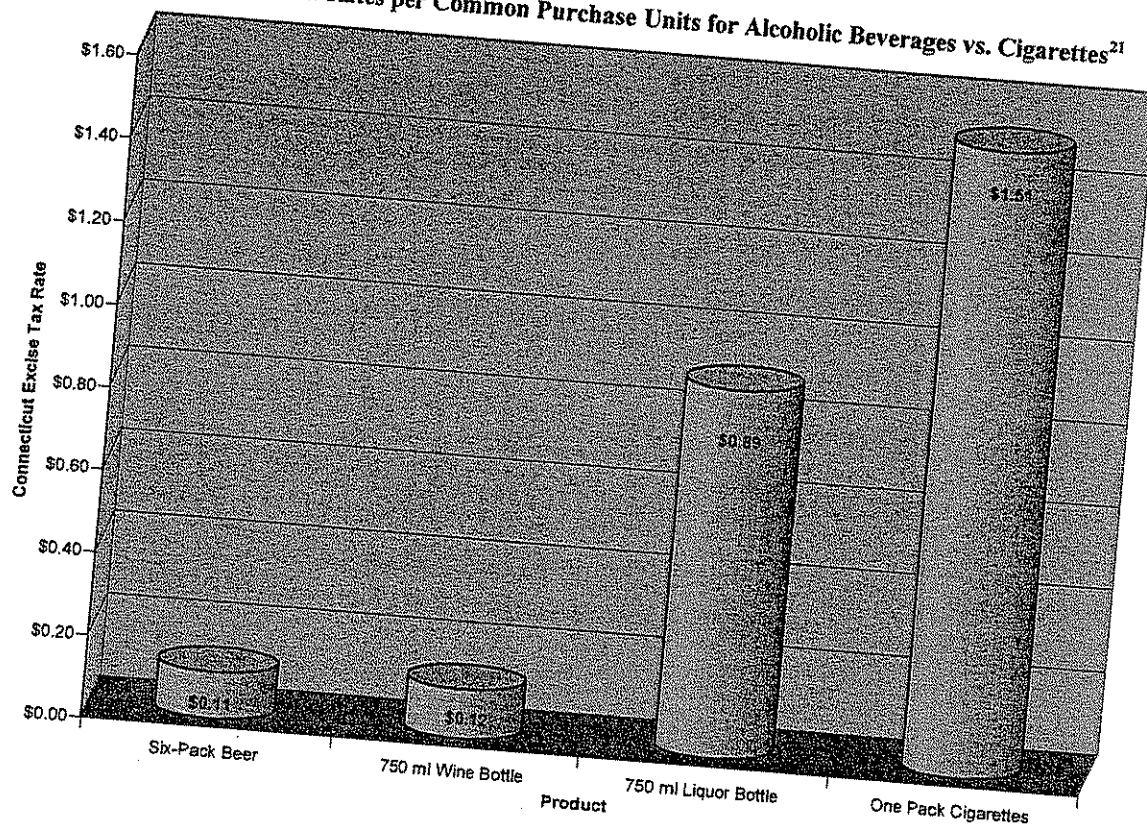
In 1998, the estimated economic cost of alcohol abuse in the U.S. exceeded \$184 billion. That cost equals roughly \$683 for every man, woman and child living in the U.S.¹⁵ The cost to Americans of underage drinking alone totals nearly \$53 billion.¹⁶ Each year, the federal government spends nearly \$1.0 billion on alcohol prevention services for people of all ages, less than two percent of the annual cost of alcohol use by youth alone.¹⁷

States and their taxpayers, including those in Connecticut, bear a substantial portion of those costs. Connecticut residents spend more than \$473 million on alcohol-related healthcare costs.¹⁸ The average alcohol-related fatality costs the public \$4.1 million: \$1.3 million in monetary costs and \$2.8 million in quality of life losses.¹⁹ In 2002, the state reported 3,376 cases of gonorrhea,²⁰ a number that would decline with an increase in alcohol taxes.

Alcohol and Tobacco Tax Comparison

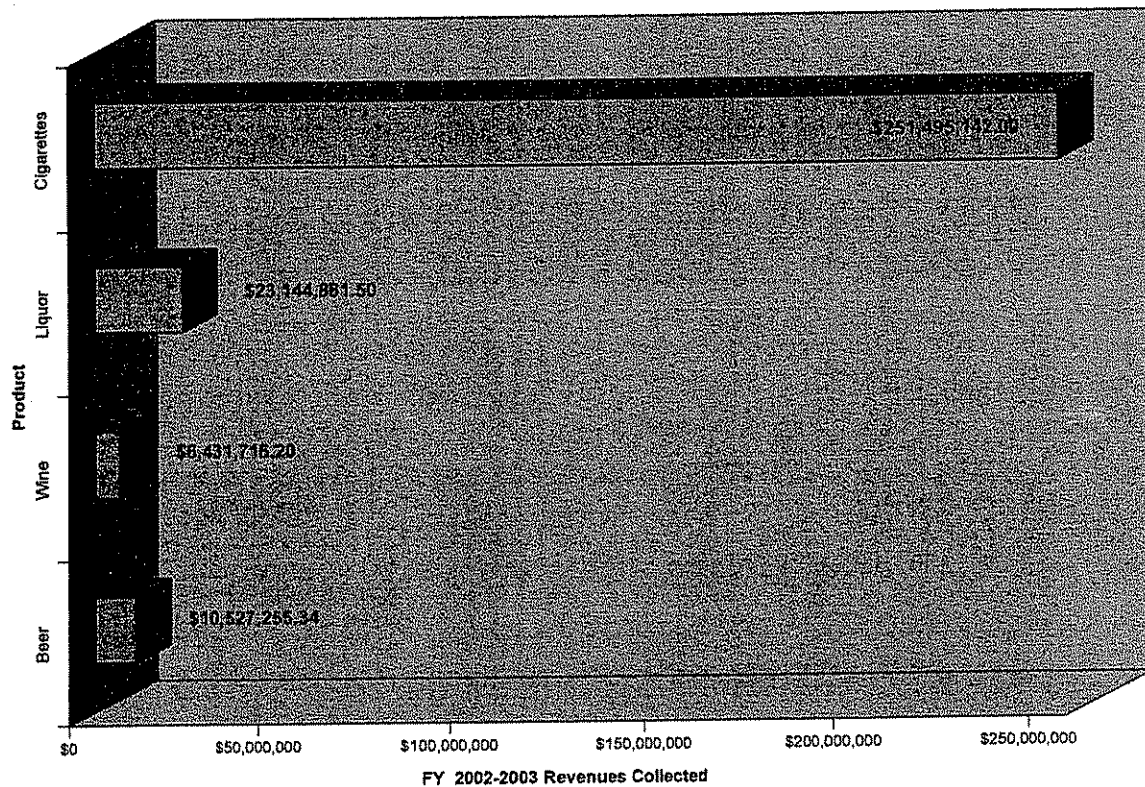
Governor Rowland has also proposed raising excise taxes on cigarettes from \$1.51 per pack to \$2.05 per pack. At its current rate, however, the excise tax on a pack of cigarettes in Connecticut dwarfs the tax rates for a six-pack of beer and a bottle of wine, and is 70 percent greater than the tax on a bottle of liquor (Graph 1).

Graph 1. Tax Rates per Common Purchase Units for Alcoholic Beverages vs. Cigarettes²¹



Revenues collected from alcohol and tobacco excise taxes in the state also vary greatly. At \$251.5 million, revenues from the cigarette excise tax totaled nearly six times the revenues from alcohol excise taxes (\$42.5 million) in FY 2002-2003 (Graph 2).²² Although the cigarette tax contributes significantly to state revenues, less than 20 percent of adults smoked cigarettes in 2000.²³ By contrast, almost two-thirds of people over the age of 18 consumed alcohol in 1999;²⁴ yet alcohol taxes make up much less of the state's revenue collections.

Graph 2. 2002-2003 Alcohol Excise Tax Revenues vs. Cigarette Excise Tax Collections²⁵



The Governor's proposal to increase taxes on alcohol and cigarettes would net the state an estimated \$41.9 million total in additional revenues for the current fiscal year.²⁶

Governor Rowland's Alcohol-Tax Increase Proposal

According to his Midterm Economic Report, the Governor suggests raising excise taxes on all alcoholic beverages by ten percent. That very modest increase would go into effect on April 1, 2004. The tax on a six-pack of beer would rise a mere penny, from \$0.11 to \$0.12; on a bottle of wine from \$0.12 to \$0.13; and on a bottle of liquor, from \$0.89 to \$0.98. Those increases would net the state an estimated \$2.0 million more in revenue. That amount would more than double for the next full fiscal year, up to \$4.7 million.

Other Tax-Increase Strategies

Governor Rowland's tax proposal presents one alternative by which the state can raise taxes and gain much-needed revenue. Other options to increase alcohol taxes include: 1) indexing the current tax rates for inflation since 1989, the last time taxes on alcoholic beverages were increased; 2) matching Connecticut's beer and

wine tax rates to the average tax rate of all states; and 3) equalizing Connecticut's rates to the highest rates of its surrounding states. We address each of these issues and then include a few more tax-increase options.

Effects of Inflation on Tax Rates and Revenues

Generally, alcohol excise tax rates have not increased to compensate for the effects of inflation. As a result, real tax rates have declined over most of the post-war period. This erosion of real tax rates has contributed to overall declines in real revenues and real beverage prices over time.²⁷ Inflation has decreased the value of alcohol excise taxes in Connecticut since they were last raised in 1989.

The current excise tax on beer, at \$0.20 per gallon, now has a real value of only \$0.13 per gallon; the \$0.60 per gallon tax on wine is now worth \$0.40 per gallon; and the \$4.50 per gallon rate on distilled liquor is now worth \$3.03 per gallon. Indexing for inflation since 1989, the tax on beer, now \$0.20 per gallon, would be \$0.30 per gallon today; on wine, currently \$0.60 per gallon, the tax would be \$0.89 per gallon; and on liquor, now \$4.50 per gallon, it would be \$6.68 per gallon. Had the tax rates on beer, wine, and liquor been indexed for inflation since 1989, the state would have collected more than \$59 million in revenues in 2003, an increase of some \$19 million (Table 1).

Table 1. Alcohol Tax Rates and Revenues Have Eroded, Due to Inflation

Product	Current Tax Rate (per gallon)	FY 2002-2003 Revenue	Current Tax Rate, at Eroded Value* (per gallon)	Revenue if Tax Indexed for Inflation since 1989
Beer	\$0.20	\$10.53 million	\$0.13	\$15.73 million
Wine	\$0.60	\$6.43 million	\$0.40	\$9.60 million
Liquor	\$4.50	\$23.14 million	\$3.03	\$34.56 million
Total		\$40.10 million		\$59.53 million

* In 1989 dollars.

Connecticut's Alcohol Excise Taxes Compared to the Average of All States

Connecticut's beer and wine tax rates fall below the average tax rates of all U.S. states, while the liquor tax exceeds the state average (Table 2).

Table 2. Connecticut's Alcohol Excise Tax Rates Compared to the U.S. Average

Product	Connecticut (per gallon)	State Average ²⁸ (per gallon)
Beer	\$0.20	\$0.26
Wine	\$0.60	\$0.78
Liquor	\$4.50	\$3.92

If Connecticut merely raised current beer and wine taxes to equal the average state rate for each of those products, while leaving the liquor tax at its current rate, the state would gain a modest \$4.5 million more in revenue, bringing the total expected revenue to more than \$44.6 million. In comparison, raising alcohol tax rates on beer, wine, and liquor by merely a penny per drink would generate more than \$13.4 million in new revenue for the state.

Alcohol Excise Taxes in Connecticut and Neighboring States

Although Connecticut's beer and wine excise tax rates remain below the state average, beer and wine taxes in Connecticut meet or exceed those in neighboring states, Rhode Island, Massachusetts, and New York (Table 3).

Table 3. Connecticut's Alcohol Excise Tax Rates Compared to Neighboring States²⁹

Product	Connecticut (per gallon)	Rhode Island (per gallon)	Massachusetts (per gallon)	New York (per gallon)
Beer	\$0.20	\$0.10	\$0.11	\$0.125
Wine	\$0.60	\$0.60	\$0.55	\$0.19
Liquor	\$4.50	\$3.75	\$4.05	\$6.44

Estimated Revenue Gains Due to Proposed Alcohol-Tax Increases

Table 4 shows Connecticut's potential revenue gains and changes in consumption estimated from proposals to increase alcohol excise tax rates. For these cases, we define a standard drink serving as 12 ounces of beer, 5 ounces of wine, and 1.5 ounces of liquor.

Table 4. Projected Revenues and Consumption Changes Due to Alcohol Tax-Increase Proposals

Increase Proposal	Product	Current Tax Rate (per gallon)	New Tax Rate (per gallon)	Projected Revenue Increase for Full Fiscal Year	Projected Revenue	Projected Consumption (millions)	Percent Decrease in Consumption
Governor's Proposal*	Beer	\$0.20	\$0.22	\$1.0 million	\$11.6 million	52.6 gallons	-0.075 %
	Wine	\$0.60	\$0.66	\$0.64 million	\$7.1 million	10.7 gallons	-0.057 %
	Liquor	\$4.50	\$4.95	\$2.3 million	\$25.4 million	5.1 gallons	-0.131 %
	Total			\$3.9 million	\$44.1 million	68.4 gallons	-0.076 %
Penny per Drink	Beer	\$0.20	\$0.31	\$5.7 million	\$16.3 million	52.4 gallons	-0.41 %
	Wine	\$0.60	\$0.92	\$3.4 million	\$9.8 million	10.7 gallons	-0.30 %
	Liquor	\$4.50	\$5.35	\$4.3 million	\$27.4 million	5.1 gallons	-0.25 %
	Total			\$13.4 million	\$53.5 million	68.2 gallons	-0.38 %
Nickel per Drink	Beer	\$0.20	\$0.73	\$27.1 million	\$37.7 million	51.6 gallons	-1.97 %
	Wine	\$0.60	\$2.20	\$16.8 million	\$23.2 million	10.6 gallons	-1.51 %
	Liquor	\$4.50	\$8.77	\$21.4 million	\$44.5 million	5.1 gallons	-1.25 %
	Total			\$65.3 million	\$105.4 million	67.3 gallons	-1.85 %
Double Current Rate	Beer	\$0.20	\$0.40	\$10.3 million	\$20.9 million	52.2 gallons	-0.75 %
	Wine	\$0.60	\$1.20	\$6.4 million	\$12.8 million	10.7 gallons	-0.57 %
	Liquor	\$4.50	\$9.00	\$22.5 million	\$45.7 million	5.1 gallons	-1.31 %
	Total			\$39.2 million	\$79.4 million	68.0 gallons	-0.76 %
Dime per Drink	Beer	\$0.20	\$1.27	\$53.7 million	\$64.2 million	50.6 gallons	-3.99 %
	Wine	\$0.60	\$3.80	\$33.1 million	\$39.5 million	10.4 gallons	-3.01 %
	Liquor	\$4.50	\$13.03	\$42.2 million	\$65.3 million	5.0 gallons	-2.49 %
	Total			\$129.0 million	\$169.0 million	66.0 gallons	-3.72 %

* Numbers may not exactly match with the Governor's budget proposal because we used revenue and consumption data from FY 2001-2002 in our calculations.

Higher Taxes Will Cause Only Modest Price Changes

Alcoholic-Beverage Prices Compared to Other Products

Prices for off-premise alcoholic beverages³⁰ have risen more slowly than for all other consumer products combined. The consumer price index (CPI), which measures the price value of products, illustrates this fact. Between 1983 and 2003, the CPI growth for all products was 18 percent higher than for beer, 33 percent higher than for wine, and 13 percent higher than for liquor.³¹

The alcohol excise tax factors into product price. The failure to keep alcohol taxes at appropriate levels has contributed to the relative decline of alcoholic-beverage prices. Artificially low prices are not a boon to consumers or public health. Cheaper alcoholic-beverage prices lead to higher consumption and more alcohol-related problems. Raising taxes on those products can help reduce consumption while providing funding for much-needed treatment and prevention programs.

Although alcoholic-beverage producers have raised prices on their products several times within the past year, that amount does not fill the gap in price created by eroded tax values. As opposed to excise taxes, industry-driven price increases do not directly contribute funds to state revenues.

It doesn't take dramatic increases in price to reap public health gains. States will feel modest positive effects of tax-driven price increases, even with relatively small changes.

Minimal Price Rises Expected

Governor Rowland's proposal would increase prices on the common purchasing units of alcoholic beverages by modest amounts – a mere penny for a six-pack of beer and a bottle of wine, and less than a dime for a fifth of liquor. Other increase proposals would similarly affect prices. Considering that alcohol-related crashes alone cost an average of \$0.70 per drink,³² raising the price of a six-pack of beer or a bottle of wine by a penny seems little to pay for the economic toll that alcohol-related problems take on society.

Table 5 illustrates the estimated rise in prices for each type of alcohol-tax increase. For instance, an average consumer who purchases a six-pack of beer a week would likely spend about one cent more per week on a six-pack under Governor Rowland's proposal. Under the most aggressive tax-increase proposal, a dime per drink, the price of a six-pack per week would rise by about \$0.65. Those would be tiny additions, especially considering that the average Connecticut resident (including heavy drinkers who consume most of the beer) drinks no more than a six-pack of beer per week.³³ In fact, 40.6 percent of Connecticut residents do not drink at all.³⁴

Table 5. Price Increases for Various Tax-Increase Proposals

Increase Proposal	Product	Price Increase* per	
		Purchasing Unit (six-pack of beer, 750 ml bottle of wine or liquor)	Standard Drink (12 oz. beer, 5 oz. wine, 1.5 oz. liquor)
Governor's Proposal	Beer	\$0.01	\$0.002
	Wine	\$0.01	\$0.002
	Liquor	\$0.09	\$0.006
Penny per Drink	Beer	\$0.07	\$0.01
	Wine	\$0.05	\$0.01
	Liquor	\$0.18	\$0.01
Nickel per Drink	Beer	\$0.32	\$0.05
	Wine	\$0.27	\$0.05
	Liquor	\$0.91	\$0.05
Double Current Rate	Beer	\$0.12	\$0.02
	Wine	\$0.10	\$0.02
	Liquor	\$0.96	\$0.06
Dime per Drink	Beer	\$0.65	\$0.11
	Wine	\$0.55	\$0.11
	Liquor	\$1.82	\$0.11

*Includes a 7.5% mark-up on the tax increase. Young, D.J. & Bielinska-Kwapisz, A. (2002). Alcohol Taxes and Beverage Prices. *National Tax Journal*. LV(1):57-74.

Notes

CSPI used the following equation to calculate the projected volume consumed and revenue generated from potential increases in Connecticut's alcohol excise tax rate:

$$V_1 = V_0 (1 + PE (PI/CP))$$

Where: V_1 = projected volume consumed

V_0 = 2001 volume consumed

PE = price elasticity

PI = price increase (including a 7.5 percent mark-up)

CP = current price

The price increase assumes a 7.5 percent mark-up (a conservative estimate³⁵) on the tax increase. The current price (CP) was obtained by calculating that an average six-pack of beer costs \$4.86 or \$8.65 per gallon. These numbers represent total retail sales of beer divided by the total volume of beer sold in the U.S. This same method can be localized using Connecticut data, if available

For this report, we used a price elasticity of -0.30, from a study in NIAAA's *10th Special Report to Congress*.³⁶ Although the study applied this value specifically to beer consumption and revenue, we used this value for all beverage types, to provide conservative estimates of the projected revenues. Applying different elasticities to wine and liquor would result in slightly different estimates of consumption decreases and revenue gains.

References:

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